CITY OF MOUNTAIN VIEW
MEMORANDUM

DATE: May 2, 2003

TO: City Council

FROM: Kevin C. Duggan, City Manager

SUBJECT: MAY 6, 2003 STUDY SESSION—REVIEW OF SPECIAL FUNDS AND UTILITY FUNDS

The City Council held a study session on April 15, 2003 to consider recommendations associated with the adoption of the General Operating Fund budget for Fiscal Year 2003-04. General Operating Fund and other operating fund recommendations are normally combined in a Narrative Budget Report and presented to Council each May. As the issues and challenges are significant for the upcoming fiscal year, particularly for the General Operating Fund, the General Operating Fund portion of the budget was brought to Council earlier than usual. This report presents the "Other Funds" section of the Narrative Budget Report, including the Revitalization Authority, Shoreline Regional Park Community and the Utility Funds, Water, Wastewater and Solid Waste Management. In addition, although it is a component of the General Operating Fund, the operations of Shoreline Golf Links will be discussed.

Shoreline Golf Links

Shoreline Golf Links is an 18-hole course designed by Robert Trent Jones II & Associates and was completed in 1983. The course is generally opened to the public 364 days a year with 72,000 to 78,000 rounds of play annually. The course, previously leased to a private party, came under the direct management of the City for the first time in December 1995. Since the City assumed management, the course has undergone major renovations.

Although Shoreline Golf Links is a General Operating Fund program, it is tracked and reported as a separate entity for management information purposes and to provide a more comprehensive overview of its operations.

Fiscal Year 2002-03 estimated operating revenues of $3.9 million are lower than the budgeted $4.2 million by $317,000 due to green fees and driving range revenues trending below budget. The budget was developed during a period of peak revenue generation at the golf course and the projected average green fee, based on such period of time, has not materialized. Driving range revenues have also declined somewhat, whereas retail sales and other revenues are trending above budget. The overall decline in revenues may be due to the general economic slowdown in Silicon Valley.

Operating expenditures are currently estimated at $3.5 million, slightly less than the budget of $3.6 million, resulting primarily from salary savings. Included in operating expenditures is $400,000 to reimburse administrative support costs for the golf course. In addition to operating expenditures, there is $320,000 for capital projects and $250,000 to support other Recreation programs. The estimated revenue deficiency of $173,000 is due to one-time capital projects. Shoreline Golf Links is estimated to end the current fiscal year with a balance of $2.0 million.

Revenues, expenditures and balance comparisons for the Shoreline Golf Links follow (amounts in thousands):

	2001-02 Audited	2002-03 Adopted	2002-03 Estimated	2003-04 Recommended
Revenues:				
Investment Earnings	$ 164	143	134	108
Green Fees	2,407	2,697	2,325	2,399[1]
Driving Range	486	480	435	470
Rental Fees	352	350	353	350
Retail Sales	457	426	439	435
Other	339	110	203	135
Total Revenues	4,205	4,206	3,889	3,897
Operating Expenditures	3,331	3,606	3,492	3,607
Operating Balance	874	600	397	290
Capital Projects	(355)	(320)	(320)	-0-
Transfer for Recreation Programs	-0-	(250)	(250)	(250)
Excess (Deficiency) of Revenues	519	30	(173)	40
Beginning Balance	1,691	2,210	2,210	2,037
Ending Balance	$2,210	2,240	2,037	2,077

[1] Includes recommended green fee increases.

The Fiscal Year 2003-04 expenditure recommendations include the following:

- Miscellaneous Reductions: ($41,100)

  Reduces advertising ($17,900), training and travel ($10,900), contract services ($11,500) and cell phone ($800) budgets.

- Irrigation Water: ($25,700)

  Reduces expenditures for irrigation water as more water is being supplied by a new irrigation well on the course.

- Materials and Supplies: ($16,100)

  Reduces materials and supplies budget for retail display, landscaping, junior putting tournament and complimentary tees and divot repair tools.

- Pro Shop: ($12,200)

  Reduces use of hourly Pro Shop Assistants for reservations and retail sales.

- Landscape Maintenance: ($4,200)

  Eliminates contract services for parking lot maintenance. Work will be absorbed by the Shoreline maintenance crew. There may be a minor impact on maintenance service levels elsewhere in Shoreline at Mountain View Park.

- Major Equipment Replacement:

  — Fairway Mower: $33,000

  — Triplex Tee Mower: $20,300

Revenues for Fiscal Year 2003-04 are projected to total $3.9 million and operating expenditures are recommended at $3.6 million. Included in recommended revenues are green fee and driving range increases of $1 or $2, depending on day and time of play and a new twilight rate of $15 and $8 for residents. These fee recommendations were included in the New and Enhanced Revenues, Attachment P to the General Operating Fund Report of April 15, 2003. Green fees were last increased July 1, 2001 and are recommended to be increased to offset rising course operating cost, while still maintaining rates at competitive levels. The Parks and Recreation Commission has reviewed and approved these fee recommendations.

The golf course has equipment with an estimated replacement value of approximately $1.3 million that was added to the Equipment Replacement Fund in Fiscal Year 2000-01 similar to other City equipment. The contribution to the fund for Fiscal Year 2003-04 is estimated at $156,000. Also included in operating expenditures is $419,000 for reimbursement of administrative support provided by such departments as the City Manager's Office, City Attorney's Office and Finance and Administrative Services Department for payroll and accounting services, etc.

The operating balance is projected at $290,000. With the recommended transfer of $250,000 for Recreation program support, the fund is projected to end Fiscal Year 2003-04 with a balance of $2.1 million.

Revitalization Authority Fund

The Revitalization Authority (Authority) was established in 1969 in order to spur the renovation of downtown Mountain View. It is a legally separate governmental entity with the City Council acting as the governing board. The Authority has undertaken a number of projects and programs over the years to renovate and redevelop downtown Mountain View. A major redevelopment of the public infrastructure on Castro Street was completed in 1990. This project was a successful endeavor benefiting the community and allowing the downtown area to enhance its role as the focal point of the community. Based upon the redevelopment plan modifications adopted in 1995, required by a change in State law, the Revitalization Authority cannot issue additional debt after January 1, 2004, will cease activities in April 2009 and can no longer accept property tax increments beyond April 2019.

Over the last several years, the financial condition of the Authority has significantly improved. An increase in private redevelopment/construction activity within the Authority's boundaries has resulted in a significant increase in property tax (increment) growth.

In June 2002, the Council authorized staff to issue a Request for Proposals for architectural design services for the new parking structure downtown. It had been staff's intention to proceed with the authorization to issue debt for this project in January 2003. However, in January 2003, the Governor released his Fiscal Year 2003-04 State budget proposals that would impact redevelopment agencies and has caused staff to delay moving forward with this recommendation. Staff reviewed the status of the Authority's financial capacity with Council at a study session on January 21, 2003. Various State budget proposals have been released since the Governor's January 2003 proposals that would transfer tax increment from redevelopment agencies to the State.

Staff has reviewed the impacts of these proposals on the Authority's financial capacity and has concluded there is sufficient financial capacity to cover debt service payments on the minimum amount needed to fund the parking structure with minimal risks and plans to return to Council this summer for authorization to issue debt. The deadline for issuing new debt by the Authority is January 1, 2004, after which its authority to incur debt will expire under existing State law. To fund the project, staff has proposed a combination of Parking District, parking in-lieu fees and the proceeds from the bond issue secured by the Revitalization Authority. Approval for an architectural design contract will be returning to the Council in late June.

There are other downtown initiatives related to housing, potential property acquisitions and retail recruitment strategies that may also require funding. However, in light of the State's proposals, it is not certain at this time if sufficient bonding capacity exists for these additional objectives. Any additional debt would be issued as a nontradeable note to be purchased by the Shoreline Regional Park Community. This mechanism may also be used to secure the current outstanding loan for property discussed below.

Revenues for the Revitalization Authority for Fiscal Year 2002-03 are estimated at $2.7 million, slightly less than budget of $2.8 million. Property tax increment increased as anticipated as a result of the property development over the past few years. Expenditures for the current fiscal year are estimated at $1.9 million, on target with the Adopted Budget.

Operating revenues are estimated to exceed operating expenditures by $817,000, resulting in an estimated ending balance of $1.1 million for the current fiscal year. Capital projects of $3.0 million represent funding for the new parking structure.

In addition, there is a $413,000 outstanding loan from the General Fund that assisted with the $725,000 property purchase at 253-255 Franklin Street and a loan for $1.9 million outstanding from the Shoreline Regional Park Community for the purchase of the property located at the corner of California and Bryant Streets. Both loans are to be repaid with the proceeds of sale on these properties. The "Seed Money" funds, designated to provide incentives for private investment in the downtown area, has maintained a balance of $121,000.

The State-mandated Housing Set-Aside requirement is equal to 20.0 percent of annual property tax revenues in the Authority. These funds are required to be used to provide low / moderate-income housing. Council has approved the use of $809,000 of set-aside funds for the construction of approximately 125 efficiency studios to be located at the San Antonio Loop.

Revenues, expenditures and balance comparisons for the Revitalization Authority Fund follow (amounts in thousands):

	2001-02 Audited	2002-03 Adopted	2002-03 Estimated	2003-04 Recommended
Revenues:				
Investment Earnings	$ 172	183	169	180
Property Taxes	2,453	2,666	2,561	3,132
Other	157	-0-	-0-	-0-
Total Revenues	2,782	2,849	2,730	3,312
Expenditures:				
Operating	214	449	475	381
20% Set-Aside	491	533	512	626
Debt Service	723	759	738	757
Loan Payment	219	188	188	182
Total Expenditures	1,647	1,929	1,913	1,946
Operating Balance	1,135	920	817	1,366
Capital Projects	-0-	(3,048)	(3,048)	-0-
Excess (Deficiency) of Revenues	1,135	(2,128)	(2,231)	1,366
Beginning Balance	2,166	3,301	3,301	1,070
Ending Balance	$3,301	1,173	1,070	2,436
Seed Money Project Balance	$ 121	121	121	121
Housing Set-Aside[1]	$1,906	2,502	2,507	3,220

[1] $809,000 designated for efficiency studio project.

The Fiscal Year 2003-04 expenditure recommendations include the following:

- Administrative Overhead: $100,000

  Administrative overhead is charged for staff support provided by the General Operating Fund departments to the Revitalization Authority. The actual amount calculated per the recently updated cost allocation plan is $469,000. The Fiscal Year 2002-03 budget included $102,000. Staff is recommending this amount be increased by $100,000 for Fiscal Year 2003-04. This charge reimburses the General Operating Fund for support costs of Revitalization Authority operations.

- Consulting Services: $50,000

  Funding for a half-time contract planner to work on downtown projects and implementation of the interim ordinance requiring additional review of land use changes in the Downtown Precise Plan area. This represents shifting existing costs being incurred to the appropriate funding source.

- Downtown Retail Recruitment Strategy: $40,000

  Additional funding for consultants to continue the downtown retail recruitment strategy. One of the major goals of this strategy is to attract and diversify retailers in the downtown. During the past six months, the consultant has initiated contacts with various downtown property and business owners and assisted with the preparation of marketing materials to promote the downtown to potential real estate brokers and retailers. This funding would continue these efforts for next fiscal year and provide $10,000 of funds for marketing and promotional material.

Revenues for the upcoming fiscal year are projected to be $3.3 million and expenditures are recommended at $1.9 million. The projected operating balance of $1.4 million is sufficient to fund the debt service necessary for the bond issue in the amount for the parking structure and protection against the current State's proposals, shifting redevelopment tax increment to the State. The fund is projected to end Fiscal Year 2003-04 with an ending balance of $2.4 million.

Shoreline Regional Park (North Bayshore) Community Fund

The Shoreline Regional Park (North Bayshore) Community was created in 1969 for the development and support of the Shoreline Regional Park and the surrounding North Bayshore Area. In recent years, this fund has been in a relatively strong financial position and has had sufficient resources to finance expenditures, including significant capital improvements. Although the fund continues to generate substantial property tax increment, assessed values actually declined this fiscal year due to a drop in unsecured property values. This is largely a result of the high commercial vacancy rate in the North Bayshore Area.

Total estimated revenues for the current fiscal year are $23.2 million compared to budgeted revenues of $21.4 million. The tax roll for the current fiscal year was calculated based on assessed values as of January 1, 2002 (lien date). Since prior year construction activity and property sales were still being added to the roll, higher than budgeted tax increment revenues have resulted. However, this trend is not anticipated to continue at this level for the next several fiscal years.

Expenditures are estimated at $12.4 million, slightly less than the adopted budget of $12.6 million. In addition, there are capital projects of $4.5 million and the fund is estimated to end the current fiscal year with a balance of $40.2 million.

Revenues, expenditures and balance comparisons for the Shoreline Regional Park (North Bayshore) Community Fund follow (amounts in thousands):

	2001-02 Audited	2002-03 Adopted	2002-03 Estimated	2003-04 Recommended
Revenues:				
Property Taxes	$23,176	19,671	21,307	20,281
Investment Earnings	1,941	1,640	1,685	1,743
Capital Project Refunds	4,103	-0-	-0-	-0-
Other	297	130	162	130
Total Revenues	29,517	21,441	23,154	22,154
Expenditures:				
Operating	4,793	5,576	5,411	6,809
Debt Service	5,520	5,137	5,125	5,144
Loan Payment	1,894	1,894	1,894	1,894
Total Expenditures	12,207	12,607	12,430	13,847
Operating Balance	17,310	8,834	10,724	8,307
Bond Call	(4,142)	-0-	-0-	-0-
Capital Projects	(3,249)	(4,374)	(4,480)	(12,603)
Excess (Deficiency) of Revenues	9,919	4,460	6,244	(4,296)
Beginning Balance	23,991	33,910	33,910	40,154
Ending Balance	$33,910	38,370	40,154	35,858

The Fiscal Year 2003-04 expenditure recommendations include the following:

- Public Works Department Reorganization: $58,400

  — Facilities Staff: $34,600

    Reallocates portions of Facilities Manager, Project Manager and Facilities Maintenance Worker positions time from the General Operating Fund to the Shoreline Regional Park Community Fund for costs of staff time spent on facilities and projects located in the Shoreline Community currently being absorbed by the General Operating Fund.

  — Streets Maintenance: $23,800

    Reallocates portions of a Streets Supervisor, 6.0 Streets Maintenance Workers and 1.0 Lighting and Traffic Technician, shifts responsibility for street excavations and repairs to the Streets Section and allocates Streets staff expenses from the General Operating Fund to the Shoreline Regional Park Community Fund and Utility Funds proportionately to the costs of services benefiting each fund. Will generate additional savings by reducing fleet size (anticipated return of one backhoe and two dump trucks). See the General Operating Fund Report of April 15, 2003, Attachment L.

  — Business Recruitment: $25,000

    Additional funding for a consultant to assist with business recruitment in the North Bayshore. The consultant will work with property owners and the brokerage community to market the North Bayshore to businesses and corporations seeking to relocate. Staff and the consultant will also establish and maintain a listing of available vacant space in this area. This vacancy listing would be updated quarterly and distributed to real estate brokers, prospective tenants and be incorporated into the City's web site.

- Joint Venture:Silicon Valley Funding: $15,000

  Transfers funding to Joint Venture:Silicon Valley (JVSV) from the General Operating Fund to the Shoreline Regional Park Community Fund, where many of the City's major corporations are located. The Shoreline Community currently suffers from a very high commercial vacancy rate and disproportionately benefits from the activities and objectives of JVSV.

- Landscape Maintenance: $5,500

  Increases funding for COLA adjustment to current contract and addition of maintenance of newly landscaped golf course parking lot at Shoreline at Mountain View Park.

- Maintenance Staff: No net adjustment

  Cancels contract for turf mowing at Shoreline at Mountain View and Charleston Parks and transfers 75 percent of a Parks Maintenance Worker's time to the Shoreline Regional Park Community Fund to absorb the work. Service levels within North Bayshore will remain the same. (See the General Operating Fund Report of April 15, 2003, Attachment N.)

- Major Capital Outlay

  — Small Unit Mower: $10,000

    Purchases a new mower to provide on-site resource for conducting mowing services by City staff at Charleston Park and Shoreline at Mountain View Park, in conjunction with the budget reduction recommendation above.

- Major Capital Improvements:

  — Shoreline Maintenance Facility Construction: $4,500,000

  — Stevens Creek Trail Pedestrian / Bicycle Overcrossing at Moffett Boulevard Design and Construction: $2,500,000

  — Shoreline Boulevard Reconstruction (within Shoreline at Mountain View Park): $2,000,000

  — Golf Car / Pro Shop Facility Design and Construction (complete funding): $1,000,000

Revenues for the upcoming fiscal year are projected to be $22.2 million, slightly lower than the current year estimate of $23.2 million. It is possible that assessment appeals or assessed valuation reductions by the County Assessor could reduce secured property tax revenue next year; however, information regarding next year's tax roll is not yet available from the County Assessor's Office. Commercial space vacancies continue to be approximately 25.0 percent and this is projected to cause unsecured property taxes to decline further next fiscal year. Recommended expenditures are $13.8 million plus capital projects of $12.6 million. The balance of the Shoreline Regional Park (North Bayshore) Community Fund as of June 30, 2004 is projected to be $35.9 million.

A significant balance in this fund is necessary for future significant capital projects and to provide for contingencies, including potential environmental mitigation projects associated with the long-term maintenance of the landfills in the Community. There is $27.2 million included in the proposed Five-Year Capital Improvement Program and in excess of $125 million of projects projected over the next 10 to 15 years to protect the investment in the Community. This fund is in good financial condition but requires continued careful management of its financial resources.

Water Enterprise Fund

The Water Enterprise Fund accounts for the revenues and expenditures associated with the provision of retail water service to Mountain View residents and businesses. The City provides water service to 96.0 percent of water customers within the City limits while the California Water Service Company (a private company) provides service to approximately 4.0 percent of water customers in a few previously unincorporated neighborhoods. Water for the City's system is obtained primarily from the San Francisco Water Department (SFWD) through its Hetch-Hetchy system (85.9 percent). Water is also purchased from the Santa Clara Valley Water District (SCVWD) (13.2 percent) and 0.9 percent of water was obtained from City-owned wells during the current fiscal year. The primary costs associated with this service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance and major capital replacement and improvement projects. Charges for service are designed to fully cover ongoing annual costs and a base level of annual capital projects as well as to maintain an adequate reserve.

Effective July 1, an average rate increase of 3.0 percent was implemented for Fiscal Year 2002-03. Current revenue estimates for Fiscal Year 2002-03 total $15.4 million, the same as budgeted revenues of $15.4 million. Water sales are slightly higher than budget with interest earnings slightly less than budgeted. Operating expenditures for the current fiscal year are estimated at $11.8 million compared to the budget of $11.9 million. In addition, there are capital project expenditures of $3.4 million. The fund is estimated to end the fiscal year with an ending balance of $2.9 million and a reserve balance of $5.4 million.

Revenues, expenditures, balances and reserve comparisons for the Water Fund follow (amounts in thousands):

	2001-02 Audited	2002-03 Adopted	2002-03 Estimated	2003-04 Recommended
Revenues:				
Investment Earnings	$ 1,318	1,248	1,133	977
Water Sales	13,252	13,488	13,618	14,272[1]
Other	1,204	659	667	648
Total Revenues	15,774	15,395	15,418	15,897
Expenditures:				
Operating	5,570	6,278	6,276	6,541
Water Purchases	5,473	5,651	5,486	6,771
Total Expenditures	11,043	11,929	11,762	13,312
Operating Balance	4,731	3,466	3,656	2,585
Capital Projects	(4,112)	(3,424)	(3,424)	(2,141)
Excess (Deficiency) of Revenues	619	42	232	444
Beginning Balance	7,361	8,023	7,980	8,212
Reserves	(5,357)	(5,357)	(5,357)	(5,742)
Ending Balance	$ 2,623	2,708	2,855	2,914

[1] Based on a recommended average 3.0 percent rate adjustment.

The three major factors that influence rate setting for the Water Fund are: (1) the cost of wholesale water; (2) water consumption level; and (3) the level of capital improvements. The cost of water purchases from the SFWD and other water sources (approximately 46.6 percent of ongoing expenditures) has been subject to major fluctuations over the past 10 years and has caused the City's retail water rates to vary significantly.

The San Francisco Public Utilities Commission (SFPUC) has yet to adopt rates for wholesale water costs for next fiscal year. It is expected they will not adopt rates until sometime in May. Our best information resource, the Bay Area Water Supply and Conservation Agency (BAWSCA) (formerly the Bay Area Water Users Association), of which we are a member, is estimating there will be a 21.6 percent increase in wholesale water costs from the SFWD. If the actual rate adopted is different than this, staff will reevaluate the rate recommendation prior to the adoption of the budget and rates in June.

Water consumption plays a significant factor in the revenues generated by this fund. In the drought of the early 1990s, reduction in water usage was encouraged. Significant rate increases were implemented to fund fixed operating costs spread over a lower number of water units sold. In the past several years, water consumption has exceeded projections, which has allowed for the funding of Water Master Plan projects from existing resources rather than having to issue debt to finance these projects. A preliminary review indicates the City's charges for meters (fixed costs) are low compared to other agencies. Staff will be reviewing this fee and may be returning to Council to adjust meter fees which would provide more stability to the City's rate structure.

Water rates were incrementally increased by 3.0 percent for the past two years, to lessen the need for significant future rate increases. This strategy to incrementally increase rates in order to mitigate larger increases in future years is resulting in staff recommending a 3.0 percent rate adjustment for Fiscal Year 2003-04, much lower than would otherwise be necessary considering the 21.6 percent increase in wholesale water cost from SFWD. This 3.0 percent rate recommendation is also possible because of the $216,100 operating reductions recommended.

SFWD and SCVWD have projected 15.9 percent and 8.0 percent rate increases, respectively, for Fiscal Year 2004-05. Staff will review rates for next fiscal year to determine the impact of these proposals.

Lastly, the City intends to further expand water storage capacity (Graham Reservoir), which will require the City to issue debt that may impact future rates.

The Fiscal Year 2003-04 expenditure recommendations include the following:

- BAWSCA Membership Increase: $18,000

  The City of Mountain View pays membership dues to the Bay Area Water Supply and Conservation Agency (BAWSCA) along with 28 other member agencies. BAWSCA represents the interest of its members by negotiating with the SFWD. Dues are assessed based on each member's water purchases. The City's dues have increased steadily over the past several years and has been absorbed in the operating budget. This addition is needed as the cumulative increases can no longer be absorbed.

- Public Works Department Reorganization: ($169,000)

  — Streets Maintenance: $32,500

  Reallocates portions of a Streets Supervisor and 6.0 Streets Maintenance Workers. Shifts responsibility for water and wastewater construction street excavations and repairs to the Streets Section, and allocates Streets staff expenses to utility funds. Will generate additional savings by reducing fleet size (anticipated return of one backhoe and two dump trucks). (See the General Operating Fund Report of April 15, 2003, Attachment L.)

  — Water Position Reductions: ($181,600)

  Eliminates 1.0 Meter Service Worker II position ($72,600), 1.0 Water Utility Worker II position ($71,100) and .5 Heavy Equipment Operator position ($37,900). With the reallocation of street excavation work to Streets employees and the shift of positions from Utility Workers to System Operators, the program can function with one utility crew instead of two. Consequently, a vacant Utility Worker II position can be eliminated. A vacant Meter Service Worker III can also be eliminated as the position has been vacant for some time with no measurable impact on meter reading schedules. Also, the shift of responsibility for street excavations enables the deletion of a vacant Heavy Equipment Operator that is funded 50 percent by Water and 50 percent by Wastewater. (See the General Operating Fund Report of April 15, 2003, Attachment L.)

- Reclassify Customer Service Technician to Solid Waste Fund: ($16,200)

  Reallocates the Technician to provide field and code enforcement support for the Solid Waste Section, and responsibility for morning water service work orders and water service calls will be transferred to the Meter Shop in Public Services.

- Reclassify Senior Civil Engineer to Principal Civil Engineer: ($3,700)

  Reallocates the Senior Civil Engineer that was partially allocated to the Water Fund to Capital Projects Management.

- Miscellaneous: ($99,100)

  Reduces various accounts for miscellaneous reductions in contracts ($17,000), clothing and laundry ($7,100), telephone and radio ($1,000), replacement parts ($15,000), maintenance ($40,500), training and travel ($4,500), rent and leases ($2,000) and general supplies ($12,000).

- Cost Recovery of Revenue Operations: $34,000

  Recovers additional costs of utility billing operations from utility funds. This will more accurately capture the level of staff time and General Fund costs spent in supporting other funds. The current basis of allocation, while valid, does not reflect the 85 percent to 90 percent of time this operation actually spends on utility billing matters, including billing, responding to billing questions, initiating and canceling services and utility-related telephone calls. The proposed allocation, apportioned to all the utility funds, will increase revenue $100,000 to the General Operating Fund.

- Major Capital Improvement Projects:

  - Miramonte Reservoir Construction, Phase II: $1,500,000

  - Miscellaneous Water Main / Service Line Replacement: $1,255,000

A 3.0 percent recommended rate increase is estimated to increase the monthly single-family water bill by $0.68. Fiscal Year 2003-04 projected revenues with the recommended 3.0 percent rate increase are $15.9 million while recommended operating expenditures are $13.3 million (after eliminating the budget effect of depreciation expense). This reflects a projected 21.6 percent increase to wholesale water rates from SFWD and a 10.0 percent increase from SCVWD. If the actual rate increase from SFWD is significantly different than projected, staff will reevaluate the rate recommendation prior to budget and rate adoption in June. The balance of revenues over expenditures is recommended to fund $2.1 million of capital projects. This results in a reserve balance of $5.7 million, and the ending balance is projected to be $2.9 million.

Wastewater Enterprise Fund

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation and treatment of liquid wastes generated from all residences and businesses in the City. Other associated functions included in this fund are the City's Blended Water Program, the Hazardous Materials Permit Program and the Industrial Liquid Waste Management Program. Expenditures in this fund include the construction and maintenance of sanitary sewer lines and pump stations, the City's share of costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (PARWQCP) (in which the City is a partner) and personnel costs for the operation and maintenance of the system. This fund is impacted by costs associated with stringent requirements for treatment plant discharges into the San Francisco Bay and fluctuations in water usage. Revenues are partially governed by the amount of water used each year in the City.

In Fiscal Year 2000-01, the loss of two large commercial discharge generators in the City resulted in an imbalance of ongoing revenues and expenditures. Since the revenue base for wastewater service charges is relatively low, each incremental percentage rate increase does not generate the same volume of revenues as compared to the City's other utility services. An 8.0 percent rate increase was adopted for the current fiscal year to bring the ongoing revenue expenditure balance more in line. However, this did not completely balance revenues and expenditures.

The current revenue estimate is $10.1 million, $198,000 below the budget of $10.3 million. Wastewater service revenues and investment earnings are slightly lower than budgeted. Expenditures were originally budgeted, excluding capital projects, at $10.9 million and are currently estimated at $9.5 million. As the City's volume and proportionate share of wastewater treatment has declined, a credit of approximately $400,000 for Fiscal Year 2002-03 wastewater treatment costs has been included in the estimates, thereby reducing the amount owed for this fiscal year. In addition, there is $2.0 million in annual maintenance capital projects, resulting in total expenditures estimated to exceed revenues by $1.4 million this fiscal year. The fund is estimated to end the fiscal year with an ending balance of $3.4 million and a reserve balance of $8.7 million.

Revenues, expenditures, balances and reserve comparisons for the Wastewater Fund follow (amounts in thousands):

	2001–02 Audited	2002-03 Adopted	2002-03 Estimated	2003-04 Recommended
Revenues:				
Investment Earnings	$ 944	910	791	682
Wastewater Service	8,019	8,696	8,506	9,186[1]
Other	971	669	780	669
Total Revenues	9,934	10,275	10,077	10,537
Expenditures:				
Operating	3,974	4,890	4,335	4,834
Wastewater Treatment	5,595	6,033	5,180[2]	5,976
Total Expenditures	9,569	10,923	9,515	10,810
Operating Balance	365	(648)	562	(273)
Capital Projects	(2,169)	(1,530)	(1,955)	(1,778)
Excess (Deficiency) of Revenues	(1,804)	(2,178)	(1,393)	(2,051)
Beginning Balance	15,310	13,672	13,506	12,113
Reserve	(9,450)	(9,120)	(8,695)	(8,417)
Ending Balance	$ 4,056	2,374	3,418	1,645

(1) Based on a recommended 8.0 percent average rate adjustment.
(2) Includes credit of approximately $400,000, offsetting this fiscal year's expenditures.

The Fiscal Year 2003-04 expenditure recommendations include the following:

- Public Works Department Reorganization: $5,300

  — Streets Maintenance: $49,600

    Reallocates portions of a Streets Supervisor and 6.0 Streets Maintenance Workers. Shifts responsibility for water and wastewater construction street excavations and repairs to the Streets Section, and allocates Streets staff expenses to utility funds. Will generate additional savings by reducing fleet size (anticipated return of one backhoe and two dump trucks). (See the General Operating Fund Report of April 15, 2003, Attachment L.)

  — Wastewater Position Reductions: ($44,300)

    Eliminates .5 Heavy Equipment Operator position ($37,900). The shift of responsibility for street excavations enables the deletion of a vacant Heavy Equipment Operator position that is funded 50 percent by Water and 50 percent by Wastewater. Also reclasses a Wastewater Utility Worker III to a Wastewater Utility Worker I/II position ($6,400). (See the General Operating Fund Report of April 15, 2003, Attachment L.)

- Miscellaneous: ($101,200)

  Reduces various accounts for miscellaneous reductions in contracts ($49,000), clothing and laundry ($2,000), telephone and radio ($1,000), utilities ($20,000), maintenance ($17,500), training and travel ($6,700) and general supplies ($5,000).

- Cost Recovery of Revenue Operations: $33,000

  Recovers additional costs of utility billing operations from utility funds. This will more accurately capture the level of staff time and General Fund costs spent in supporting other funds. The current basis of allocation, while valid, does not reflect the 85 percent to 90 percent of time this operation actually spends on utility billing matters, including billing, responding to billing questions, initiating and canceling services and utility-related telephone calls. The proposed allocation, apportioned to all the utility funds, will increase revenue $100,000 to the General Operating Fund.

- Major Equipment Replacement:

  — Sewer Line Cleaner Truck: $225,000

- Major Capital Improvement Projects:

  — Miscellaneous Storm / Sanitary Sewer Main Replacement: $1,216,000

The significant imbalance of revenue versus expenditures has been compounded by the slower economy and higher vacancy rates in commercial / industrial properties in the City. The City's share of wastewater treatment costs imposed by the PARWQCP for next fiscal year reflects this and is declining slightly. Staff recommends a minimum rate increase of 8.0 percent for Fiscal Year 2003-04. This rate increase is recommended to bring the operating revenues more in line with operating expenditures but does not fund a baseline of annual capital projects.

For rate-setting purposes, a $1.5 million base level of annual maintenance capital projects should be assumed. However, current budgeted operating revenues are insufficient to support budgeted operating expenditures. For next fiscal year, staff estimates an 8.0 percent rate increase would be necessary to almost balance ongoing revenues and expenditures, and a 28.0 percent rate increase would be needed to additionally fund a $1.5 million base level of annual CIPs. Currently, capital projects are being funded from available balance and reserves, which are higher than required by policy. Although the recommended 8.0 percent essentially balances ongoing revenues and expenditures, but not annual CIPs, a larger rate increase can be deferred at this time as there is a sufficient available balance and reserve balance in this fund.

However, it will be necessary to continue to recommend significant rate increases in future years. Staff estimates that 8.0 percent rate increases for the next five years will be necessary in order to bring the revenue and expenditure balance in line and fund a baseline of ongoing annual capital projects of $1.5 million. This will also reduce the reserve balance to approximately $5.0 million, which is approximately policy level for this reserve. Alternatively, three years of an 11.0 percent rate increase would accomplish the same goal. It would require five years of 8.0 percent incremental rate increases compared to a one-time rate increase of 28.0 percent because incremental rate increases do not have the same compounding financial impact.

The Wastewater Fund also funds the programs of hazardous materials permits and liquid waste. As previously discussed in the General Operating Fund report of April 15, 2003, staff will be reviewing the cost recovery of Fire Department services and may be returning to Council with a recommendation to recover a greater share of costs for these programs.

Based on the 8.0 percent rate increase recommended for Fiscal Year 2003-04, the rate for a single-family residence will increase $1.15 per month. Revenues for next fiscal year are projected at $10.5 million and recommended expenditures are $10.8 million (after eliminating the budget effect of depreciation expense), leaving a negative operating balance of $273,000. In addition, there are capital projects in the amount of $1.8 million, resulting in total expenditures exceeding revenues by $2.1 million. An ending balance of $1.6 million and a reserve balance of $8.4 million are projected at the end of Fiscal Year 2003-04.

Solid Waste Management Enterprise Fund

The Solid Waste Management Enterprise Fund is the utility fund that accounts for the revenues and expenditures for solid waste-related services, including refuse collection and disposal, recycling services, street sweeping and maintenance of two of the City's closed landfill sites.

Refuse generated in the City is transported to the Sunnyvale Materials and Recovery Transfer (SMaRT) Station® (of which we are one of three partners) with final disposal at the Kirby Canyon Landfill in South San Jose. The City provides a variety of services through an outside contractor (Foothill Disposal) for the collection of refuse and recyclables. The City bills and collects all revenues for solid waste services.

For the second year in a row, no general rate increase was adopted for Fiscal Year 2002-03. Current City revenue estimates for Fiscal Year 2002-03 total $8.2 million compared to the adopted budget of $8.5 million. Revenues are lower than budget as a result of decreased refuse service demand related to increased commercial/industrial recycling and to the slower economy, reduced construction activity and higher office/commercial vacancy rates.

City expenditures are estimated at $8.5 million, compared to the budget of $8.8 million. With the lower demand for refuse service, it is projected that disposal tonnage will be down from that budgeted for the current fiscal year. A credit is projected for the reduction in disposal costs, but will not be received until next fiscal year. Sunnyvale recently completed a refinancing of the debt associated with the SMaRT Station® resulting in an approximate $100,0000 reduction in the City's proportionate share of debt service cost for this fiscal year and shortens the life of the debt by one year.

Operating expenditures are projected to exceed operating revenues by $326,000. At the end of the fiscal year, the fund is estimated to have a reserve balance of $2.4 million and an ending balance of $7.0 million.

Revenues, expenditures, balances and reserve comparisons for the Solid Waste Management Fund follow (amounts in thousands):

	2001-02 Audited	2002-03 Adopted	2002-03 Estimated	2003-04 Recommended
Revenues:				
Investment Earnings	$ 420	382	384	333
Refuse Service Charges	8,271	7,996	7,530	7,567[1]
Sale of Recycled Materials	37	-0-	121	50
Other	197	136	117	119
City Revenues	8,925	8,514	8,152	8,069
Foothill Revenues[2]	8,503	9,081	8,350	8,789
Total Revenues	17,428	17,595	16,502	16,858
Expenditures:				
Operating	2,848	3,505	3,449	3,560
Disposal and SMaRT® Station Charges	4,353	5,283	5,029	4,509
City Expenditures	7,201	8,788	8,478	8,069
Foothill Payments[2]	8,503	9,081	8,350	8,789
Total Expenditures	15,704	17,869	16,828	16,858
Operating Balance	1,724	(274)	(326)	-0-
Capital Projects	(128)	-0-	-0-	-0-
Excess (Deficiency) of Revenues	1,596	(274)	(326)	-0-
Beginning Balance	8,067	8,565	9,663	9,337
Reserves	(2,359)	(2,359)	(2,359)	(2,359)
Ending Balance	$ 7,304	5,932	6,978	6,978

(1) Based on a recommended 3.0 percent rate adjustment.
(2) Neither revenues nor expenditures are adopted for Foothill Disposal Company.

The Fiscal Year 2003-04 expenditure recommendations include the following:

- Administrative Analyst I/II: ($86,800)

  Eliminates an Administrative Analyst I/II position in the Solid Waste Fund.

  This position has been vacant for a period of time and with the reclassification of the Customer Service Technician to Solid Waste, the objectives of the Solid Waste Program can still be accomplished with the elimination of this position.

- Public Works Department Reorganization: ($84,500)

  — Streets and Landfill Manager: ($76,400)

  Eliminates the Streets and Landfill Manager that directs the maintenance operations of the Streets and Landfill Postclosure crews. Management responsibility for landfill maintenance operations will be shifted to the Engineering and Environmental Compliance Manager, which will consolidate all regulatory compliance and maintenance operations under one operation.

  — Reclassify Customer Service Technician to Solid Waste Fund: $34,400

  Reallocates the Technician to provide field and code enforcement support for the Solid Waste Section, and responsibility for morning water service work orders and water service calls will be transferred to the Meter Shop in Public Services.

  — Associate Engineer: ($27,400)

  Eliminates 1.0 Associate Engineer, of which .25 was funded by the Solid Waste Fund. See General Operating Fund Report of April 15, 2003.

  — Streets Maintenance: ($15,100)

  Eliminates a Streets Supervisor position and a portion of this position is allocated to the Solid Waste Fund as it relates to street sweeping.

- Cost Recovery of Revenue Operations: $33,000

  Recovers additional costs of utility billing operations from utility funds. This will more accurately capture the level of staff time and General Fund costs spent in supporting other funds. The current basis of allocation, while valid, does not reflect the 85 percent to 90 percent of time this operation actually spends on utility billing matters, including billing, responding to billing questions, initiating and canceling services and utility-related telephone calls. The proposed allocation, apportioned to all the utility funds, will increase revenue $100,000 to the General Operating Fund.

- Miscellaneous: ($13,100)

  Reduces various accounts for miscellaneous reductions in clothing and laundry ($7,100), contracts ($4,000), telephone and radio ($1,000) and training and travel ($1,000).

Although neither revenues nor expenditures are adopted for Foothill Disposal (Foothill), a revenue increase is provided to Foothill per the agreement for refuse collection between the City and Foothill. Generally, the agreement calls for a Consumer Price Index (CPI) adjustment, with a minimum investment return of 6.0 percent and maximum of 12.0 percent. Due to a combination of increased costs related to labor and health cost increases and new programs, an increase of 5.25 percent is calculated for Foothill.

In November 2002, Council authorized the extension of Foothill's agreement with the provision of adding automated refuse collection (to be phased in over three to four years) and recycling services. At that time, it was estimated there would be no rate impact for the automated refuse collection service, as any increased cost for toters was offset by efficiencies. However, it was estimated that a 1.0 percent general rate increase would be necessary to recover the cost associated with the implementation of automated recycling services providing split-cart toters with greater volume capacity than the current bins.

Although revenues are less than budgeted, tonnage and related disposal costs are projected to be slightly lower than budgeted. An estimated credit for this fiscal year of approximately $400,000 is projected to be received next fiscal year. There has been no general rate increase to refuse services in the past two years. Any increases provided by contract to Foothill have been absorbed by reducing the City's share of refuse revenues.

The increases associated with Foothill's expenditures can no longer be absorbed and staff is recommending a 3.0 percent rate increase.

This increase is entirely associated with the implementation of new programs and Foothill's increased costs. With a 3.0 percent general rate increase, the rate for a 32-gallon can will increase by $0.40 a month. Revenues for Fiscal Year 2003-04 are estimated to total $16.9 million with total expenditures at $16.9 million. The fund is projected to end the 2003-04 fiscal year with a balance of $7.0 million as well as an operating reserve at the policy level of $2.4 million.

Conclusion

As previously mentioned, this report constitutes the "Other Funds" section of the Narrative Budget Report. Since the challenges facing the General Operating Fund are significant, the recommendations regarding that fund were brought to Council at a special study session on April 15, 2003. Reviews were performed for all funds and reduction recommendations made where appropriate.

The Shoreline Golf Links is experiencing lower revenues as a result of the slowdown in the economy. Green fees and driving range fee increases are recommended for the upcoming fiscal year. The Revitalization Authority has seen an increase in its tax increment revenues and, based on current information, it has sufficient financial capacity to support a bond issue for the new parking structure. The Shoreline Regional Park Community continues to experience high commercial vacancy rates and it is projected unsecured property tax increment revenue will decline next fiscal year.

The Water Fund has generated sufficient revenues to fund significant Water Master Plan projects. The incremental rate increases of the past two years have assisted in allowing a modest rate recommendation of 3.0 percent for next fiscal year when wholesale water costs are projected to rise 21.6 percent for the Hetch-Hetchy water system.

The Wastewater Fund requires an 8.0 percent rate increase for Fiscal Year 2003-04 to begin to balance ongoing revenues against expenditures. This will not fund a baseline level of annual capital maintenance projects. A continuation of rate increases in the future will be needed for revenues to fund expenditures and capital projects. The Solid Waste Fund has not implemented a general rate increase for two years. The implementation of automated refuse and recycling services, in conjunction with the significant cost increases experienced by Foothill Disposal, has resulted in a recommended rate increase of 3.0 percent for Fiscal Year 2003-04. The total average increase for all the utilities is 4.4 percent, resulting in an estimated increase to a single family residence of $2.24 monthly.

We look forward to reviewing these recommendations with you and providing any follow-up information as requested.

Kevin C. Duggan
City Manager

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